

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF LOUISVILLE GAS)	CASE NO. 98-057
AND ELECTRIC COMPANY AS BILLED FROM)	
MAY 1, 1995 TO APRIL 30, 1997 AND MAY 1,)	
1997 TO OCTOBER 31, 1997)	

O R D E R

On April 6, 1995, the Commission approved Louisville Gas and Electric Company's ("LG&E") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and to the extent appropriate incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. The Commission has determined that it will be administratively efficient and reasonable to review the first two-year period and the subsequent six-month period in

¹ Case No. 94-332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order dated April 6, 1995.

the same case. Therefore, the Commission hereby initiates the two-year review of LG&E's environmental surcharge as billed from May 1, 1995 to April 30, 1997 and the six-month review of the surcharge as billed from May 1, 1997 to October 31, 1997.²

In anticipation that those parties to LG&E's last six-month review will desire to participate in this proceeding, the Attorney General's office ("AG") and the Kentucky Industrial Utility Customers ("KIUC") will be deemed parties to this proceeding. Since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. LG&E shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from May 1, 1995 through April 30, 1997 and May 1, 1997 through October 31, 1997.

3. LG&E shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, LG&E shall forward a duplicate of the notice and request to the Commission.

² Since LG&E's surcharge is billed on a two-month lag, the amounts billed from May 1995 through April 1997 are based on costs incurred from March 1995 through February 1997; amounts billed from May 1997 through October 1997 are based on costs incurred from March 1997 through August 1997.

4. LG&E shall by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the two periods under review.

5. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions related to the information, with copies to all parties of record and an original and 10 copies to the Commission.

6. The AG and KIUC are granted full intervention in this proceeding.

7. LG&E's monthly environmental surcharge reports and supporting data for the review periods shall be incorporated by reference into the record of this case.

8. The case records of Case Nos. 95-455,³ 96-290,⁴ and 97-010⁵ shall be incorporated by reference into the record of this case.

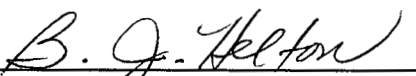
³ Case No. 95-455, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1995 to October 31, 1995.

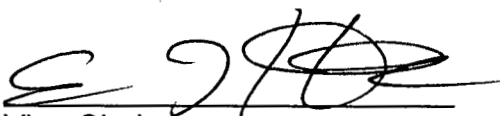
⁴ Case No. 96-290, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from November 1, 1995 to April 30, 1996.

⁵ Case No. 97-010, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1996 to October 31, 1996.

Done at Frankfort, Kentucky, this 30th day of January, 1998.

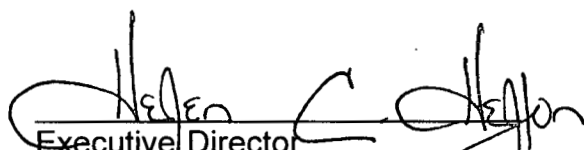
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 98-057 DATED 1/30/98

LG&E shall file responses to the information request in
Appendix B no later than 02/20/98

All additional requests for information to LG&E shall be
filed no later than 03/06/98

LG&E shall file responses to additional requests for
information no later than 03/20/98

Intervenor testimony, if any, in verified prepared form
shall be filed no later than 04/03/98

All requests for information to Intervenors shall be
filed no later than 04/16/98

Intervenors shall file responses to requests for
information no later than 04/30/98

Last day for LG&E to publish notice of hearing date 04/30/98

Public Hearing is to begin at 9:00 a.m., Eastern
Daylight Time, in Hearing Room 1 of the Commission's
offices at 730 Schenkel Lane, Frankfort, Kentucky,
for the purpose of cross-examination of witnesses of
LG&E and Intervenors 05/07/98

Briefs, if any, shall be filed by 05/29/98

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 98-057 DATED 1/30/98

INITIAL INFORMATION REQUEST

Billing Period May 1, 1995 through April 30, 1997

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 94-332, reflecting the format modifications ordered in Case Nos. 96-290 and 97-010, for the billing period May 1, 1995 through April 30, 1997. The amounts reported on these forms should reflect the Commission's decision announced in prior six-month environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

2. For each month in the billing period May 1995 through April 1997, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

3. Refer to ES Form 2.2, Plant, CWIP, and Depreciation Expense for February 1997.

a. For each project listed, include the percentage of completion as of February 28, 1997.

b. For each project still in progress as of February 28, 1997, indicate whether the project was on schedule, behind schedule, or ahead of schedule. Provide the expected completion date if different from information filed in the Case No. 94-332.

4. In its April 6, 1995 Order, the Commission required LG&E to deduct \$12,588,441 from eligible pollution control plant in service and \$3,095,533 in accumulated depreciation. These amounts represented environmental compliance plant

in service retired or to be retired due to the implementation of LG&E's compliance plan. The retirements constituted costs already included in existing rates.

a. During the review period, has LG&E experienced any additional retirements of environmental compliance plant in service?

b. If yes to part (a), provide the following information:

- (1) The month of the retirement.
- (2) The amount of plant in service retired.
- (3) The amount of accumulated depreciation associated with the plant retired.
- (4) The amount of associated pollution control deferred income taxes.
- (5) The amount of associated pollution control deferred investment tax credits.
- (6) The annual amount of depreciation expense, taxes, and insurance related to the retirement.
- (7) The project in the approved compliance plan which resulted in the retirement.

5. For the last six months of the review period, LG&E has included \$346,226 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees.

6. KRS 278.183(3) provides that during the two-year review, the Commission shall to the extent appropriate incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Explain how LG&E envisions the adjustment to base rates being performed.

b. Describe what adjustments, if any, will be needed to the monthly surcharge reporting to adequately reflect the incorporation of surcharge amounts into base rates.

c. Describe what impact the continuing appeal of the Commission's Orders in Case No. 94-332 would have on the surcharge amounts incorporated into base rates.

d. Describe what impact the subject to refund status for surcharge revenues would have on the surcharge amounts incorporated into base rates.

7. LG&E's environmental surcharge mechanism is based on an incremental approach. After the incorporation of surcharge amounts into LG&E's base rates, would it be reasonable to move from an incremental approach to a modified base period-current period approach? Explain the response.

Billing Period May 1, 1997 through October 31, 1997

8. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 94-332, reflecting the format modifications ordered in Case Nos. 96-290 and 97-010, for the billing period May 1, 1997 through October 31, 1997. The amounts reported on these forms should reflect the Commission's decision

announced in prior six-month environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

9. For each month in the billing period May 1997 through October 1997, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

10. Refer to ES Form 2.2, Plant, CWIP, and Depreciation Expense for August 1997.

a. For each project listed, include the percentage of completion as of August 31, 1997.

b. For each project still in progress as of August 31, 1997, indicate whether the project was on schedule, behind schedule, or ahead of schedule. Provide the expected completion date if different from information filed in the Case No. 94-332.

11. In its April 6, 1995 Order, the Commission required LG&E to deduct \$12,588,441 from eligible pollution control plant in service and \$3,095,533 in accumulated depreciation. These amounts represented environmental compliance plant in service retired or to be retired due to the implementation of LG&E's compliance plan. The retirements constituted costs already included in existing rates.

a. During the review period, has LG&E experienced any additional retirements of environmental compliance plant in service?

b. If yes to part (a), provide the following information:

(1) The month of the retirement.

- (2) The amount of plant in service retired.
- (3) The amount of accumulated depreciation associated with the plant retired.
- (4) The amount of associated pollution control deferred income taxes.
- (5) The amount of associated pollution control deferred investment tax credits.
- (6) The annual amount of depreciation expense, taxes, and insurance related to the retirement.
- (7) The project in the approved compliance plan which resulted in the retirement.

12. During the review period, LG&E has included \$419,797 in permitting fees in its surcharge calculations.

a. Provide a schedule identifying the agencies which were paid the permitting fees.

b. The permitting fees reported for the last four months of the review period were higher than the \$58,902 reported in the first two months, and fluctuated from month to month. Explain the reason(s) for the changes in the permitting fees reported for the review period.